

KEARSLEY COMMUNITY SCHOOLS
FLINT, MICHIGAN
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2004

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Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 24, 2004

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Kearsley Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kearsley Community Schools, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Kearsley Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kearsley Community Schools as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated August 24, 2004 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - VIII and 19 are not required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kearsley Community Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Kearsley Community Schools, a K-12 school District located in Genesee County, Michigan, is in its second year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Kearsley Community Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2004.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

District Wide Financial Statements: (Continued)

These two statements report the Kearsley Community Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2004 and 2003:

NET ASSETS SUMMARY

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Current Assets	\$11,131,433	\$10,420,258
Non-Current Assets	<u>9,840,539</u>	<u>9,528,976</u>
<u>TOTAL ASSETS</u>	<u>\$20,971,972</u>	<u>\$19,949,234</u>
<u>LIABILITIES</u>		
Current Liabilities	\$6,741,052	\$6,423,180
Long-Term Liabilities	<u>1,024,789</u>	<u>1,497,324</u>
Total Liabilities	\$7,765,841	\$7,920,504
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	8,774,893	8,005,519
Restricted - Capital Projects	272,762	183,204
Unrestricted	<u>4,158,476</u>	<u>3,840,007</u>
Total Net Assets	<u>\$13,206,131</u>	<u>\$12,028,730</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$20,971,972</u>	<u>\$19,949,234</u>

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2004 and 2003, the District wide results of operations were:

	<u>2004</u>	<u>2003</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$1,548,770	\$1,531,984
Property Taxes Levied for Debt Service	1,112,843	1,087,058
State of Michigan Unrestricted Foundation Aid	23,909,907	23,941,814
Other General Revenues	422,655	331,731
Total General Revenues	<u>\$26,994,175</u>	<u>\$26,892,587</u>
<u>Operating Grants:</u>		
Federal	1,405,472	1,467,572
State of Michigan	1,388,363	1,728,610
Other Grants	236,937	321,756
Total Operating Grants	<u>\$3,030,772</u>	<u>\$3,517,938</u>
<u>Charges for Services:</u>		
Food Service	558,632	546,572
Athletics	99,341	87,150
Daycare	555,771	535,891
Other Charges for Services	153,326	148,197
Total Charges for Services	<u>\$1,367,070</u>	<u>\$1,317,810</u>
Total Revenues	<u>\$31,392,017</u>	<u>\$31,728,335</u>
<u>EXPENSES</u>		
Instruction & Instructional Support	16,643,734	16,312,171
Support Services	10,902,495	11,436,818
Community Services	29,939	55,682
Food Service	1,079,693	972,735
Athletics	598,706	603,722
Daycare	508,050	501,372
Other Capital Projects	26,190	0
Interest on Long-Term Debt	39,426	55,585
Depreciation	386,383	360,947
Total Expenses	<u>\$30,214,616</u>	<u>\$30,299,032</u>
<u>INCREASE IN NET ASSETS</u>	<u>\$1,177,401</u>	<u>\$1,429,303</u>
<u>BEGINNING NET ASSETS</u>	<u>12,028,730</u>	<u>10,599,427</u>
<u>ENDING NET ASSETS</u>	<u><u>\$13,206,131</u></u>	<u><u>\$12,028,730</u></u>

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2004, the District's Total Net Assets increased by \$1,177,401 to a total of \$13,206,131. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$769,374 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The District's Unrestricted Net Assets increased by \$318,469 during the year and the restricted portion of the net assets increased by \$89,558. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt, the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The District's overall revenues exceeded its expenses for the year by \$1,177,401. The total revenues decreased by \$336,318 or 1% over last years amounts. The major change was a reduction in state aid. Expenditures decreased by \$84,416. Major changes were due to savings related to decreased purchasing mid-year due to a reduction in state aid, upgrade of the district-wide phone system, and no school buses purchased.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The District's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund increased by \$345,838 during the year with the increase coming primarily from a increase in cash. Revenues for the year decreased by \$406,904 primarily from a decrease in state aid. Expenditures and other financing uses decreased by \$83,141, primarily from decreased purchasing mid-year due to a reduction in state aid, reduced transfer to the Athletic Fund and no school buses being purchased. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 80 percent of current year's fall count and 20 percent of prior year's winter count
- c. The District's non-homestead tax levy

2. Per Student Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Kearsley Community Schools foundation allowance was \$6,727 per student for the 2003-2004 school year, the same as the prior year. The foundation allowance was decreased by \$74 per student from \$6,727 to \$6,653 as the result of an executive order by the governor.

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

3. Student Enrollment:

The District's student enrollment for the fall count of 2003-2004 was 3,895 students. There was no change in the number of students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18.0 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2003-2004 fiscal year was \$1,557,203, an increase of \$15,694 from the prior year.

Capital Projects Sinking Fund

The districts Capital Projects Sinking Fund balance increased by \$89,558. Sinking fund taxes levied are the primary source of revenue in the fund and they increased by \$23,741 from the previous year. Expenditures which are restricted for construction projects increased by \$93,831 from the prior year.

Special Revenue Funds

The districts special revenue funds provide food service, athletic and daycare opportunities to students. During the year the fund balances decreased by \$27,927. Food service fund balance decreased by \$69,685, primarily due to major renovations to the high school cafeteria. Athletic fund balance decreased by \$5,963, primarily from a reduced transfer from general fund. Daycare fund balance increased by \$47,722, primarily from increased tuition revenue.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Actual & Original Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$28,048,273	\$28,972,241	\$28,606,025	1.99	(1.26)
Expenditures	27,881,257	28,972,241	28,260,187	(1.36)	2.46
<u>TOTAL</u>	<u>\$167,016</u>	<u>\$0</u>	<u>\$345,838</u>		

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Kearsley Community Schools amends its budget during the school year. The June, 2004 budget amendment was the final budget for the fiscal year. There were no significant variations between the original and final budget.

The variances between the actual revenues and the original and final amended budgets in the General Fund are due primarily to the pro-rated reduction in state school aid due to insufficient funds at the state level to fund the District's full foundation allowance and adjustments to various federal and state grants.

The variances between the actual General Fund expenditures and the original and final amended budgets are a result of employee salary and benefit adjustments, adjustments for federal and state grant expenditures, savings related to decreased purchasing mid-year due to pro-rated reduction in state aid, and upgrade of the district-wide phone system.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-03	Increases 6-30-04	Principal Payments 6-30-04	Principal Balance 6-30-04
Bonds Payable	\$302,506	\$0	\$0	\$302,506
Installment Contracts	1,220,951	0	457,811	763,140
Compensated Absences	181,678	690	0	182,368
<u>Total Long-Term Debt</u>	<u>\$1,705,135</u>	<u>\$690</u>	<u>\$457,811</u>	<u>\$1,248,014</u>

Repayment of debt decreased the School District's long-term principal obligations and, thereby increased the net assets of the School District. The School District repaid \$457,811 of long-term debt during the year ended June 30, 2004.

B. Net Investment in Capital Assets

The District's net investment in capital assets increased by \$311,563 during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
Capital Assets	\$22,034,115	\$990,671	\$0	\$23,024,786
Less: Accumulated Depreciation	(12,505,139)	(679,108)	0	(13,184,247)
<u>Net Investment Capital Assets</u>	<u>\$9,528,976</u>	<u>\$311,563</u>	<u>\$0</u>	<u>\$9,840,539</u>

Significant additions to fixed assets were: roofing done to the High School and Weston Elementary, parking lot paving at Weston Elementary, boiler replacement at Armstrong Middle School, telephone system in the administration building and a athletic concession stand.

KEARSLEY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Kearsley Community Schools.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

	Governmental Activities	
	2004	2003
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$6,240,534	\$5,214,520
Accounts Receivable	54,398	7,738
Taxes Receivable	10,784	0
Due from Other Governmental Units	4,754,214	5,141,282
Inventory	16,077	6,353
Prepaid Expenses	55,426	50,365
Total Current Assets	<u>\$11,131,433</u>	<u>\$10,420,258</u>
<u>NON-CURRENT ASSETS</u>		
Capital Assets	23,024,786	22,034,115
Less: Accumulated Depreciation	<u>(13,184,247)</u>	<u>(12,505,139)</u>
Total Noncurrent Assets	<u>\$9,840,539</u>	<u>\$9,528,976</u>
<u>TOTAL ASSETS</u>	<u>\$20,971,972</u>	<u>\$19,949,234</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	747,492	727,601
State Aid Note Payable	3,531,014	3,543,659
Salaries Payable	1,641,108	1,582,793
Accrued Expenses	339,261	320,466
Deferred Revenue	258,952	40,850
Current Portion of Long-Term Obligations	<u>223,225</u>	<u>207,811</u>
Total Current Liabilities	<u>\$6,741,052</u>	<u>\$6,423,180</u>
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	<u>1,024,789</u>	<u>1,497,324</u>
<u>TOTAL LIABILITIES</u>	<u>\$7,765,841</u>	<u>\$7,920,504</u>
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	8,774,893	8,005,519
Restricted for:		
Capital Projects	272,762	183,204
Unrestricted	<u>4,158,476</u>	<u>3,840,007</u>
<u>TOTAL NET ASSETS</u>	<u>\$13,206,131</u>	<u>\$12,028,730</u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
STATEMENTS OF ACTIVITIES
JUNE 30, 2004 AND 2003

FUNCTIONS/PROGRAMS	2004			2003
	Expenses	Program Revenues		Net (Expense)
		Charges For	Operating	Revenue &
		Services	Grants and	Change in
			Contributions	Net Assets
				Net Assets
Governmental Activities:				
Instruction	\$16,643,734	\$153,326	\$2,521,839	(\$13,968,569)
Support Services	10,902,495	0	83,448	(10,819,047)
Community Services	29,939	0	0	(29,939)
Food Service	1,079,693	558,632	425,485	(95,576)
Athletics	598,706	99,341	0	(499,365)
Daycare	508,050	555,771	0	47,721
Other Capital Projects	26,190	0	0	(26,190)
Interest - Long-Term Obligations	39,426	0	0	(39,426)
Depreciation - Unallocated	386,383	0	0	(386,383)
TOTALS	\$30,214,616	\$1,367,070	\$3,030,772	(\$25,816,774)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				2,661,613
State Aid				23,909,907
Grants and Contributions Not Restricted to				
Specific Programs				153,907
Investment Earnings				26,679
Miscellaneous				242,069
Total General Revenues and Transfers				\$26,994,175
Change in Net Assets				\$1,177,401
Net Assets - Beginning - As Restated				12,028,730
<u>Net Assets - Ending</u>				<u>\$13,206,131</u>
				<u>\$12,028,730</u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other	Total
	Fund	Governmental	Governmental
		Funds	Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$5,643,633	\$596,901	\$6,240,534
Accounts Receivable	47,603	6,795	54,398
Taxes Receivable	9,399	1,385	10,784
Due From Other Governmental Units	4,734,551	19,663	4,754,214
Due From Other Funds	0	9,711	9,711
Inventory	0	16,077	16,077
Prepaid Expenses	55,426	0	55,426
<u>TOTAL ASSETS</u>	<u>\$10,490,612</u>	<u>\$650,532</u>	<u>\$11,141,144</u>
<u>LIABILITIES</u>			
Accounts Payable	\$686,580	\$60,912	\$747,492
State Aid Note Payable	3,531,014	0	3,531,014
Due to Other Funds	9,711	0	9,711
Salaries Payable	1,607,428	33,680	1,641,108
Accrued Expenses	330,408	6,773	337,181
Deferred Revenue	258,952	0	258,952
Total Liabilities	\$6,424,093	\$101,365	\$6,525,458
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	0	16,077	16,077
Capital Projects	0	272,762	272,762
Unreserved:			
Undesignated, Reported In:			
General Fund	4,066,519	0	4,066,519
School Service Funds	0	260,328	260,328
Total Fund Balances	<u>\$4,066,519</u>	<u>\$549,167</u>	<u>\$4,615,686</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$10,490,612</u>	<u>\$650,532</u>	<u>\$11,141,144</u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total Governmental Fund Balances:		\$4,615,686
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$23,024,786 and the accumulated depreciation is \$13,184,247		9,840,539
Accrued Interest on Long-Term Debt		(2,080)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$302,506	
Contracts Payable	763,140	
Compensated Absences Payable	182,368	
Total Long-Term Liabilities		<u>(1,248,014)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u>\$13,206,131</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Local Sources	\$2,126,929	\$2,360,507	\$4,487,436
State Sources	25,228,999	69,271	25,298,270
Federal Sources	1,049,258	356,214	1,405,472
Total Revenues	\$28,405,186	\$2,785,992	\$31,191,178
<u>EXPENDITURES</u>			
Current:			
Instruction	16,555,668	0	16,555,668
Student Services	2,175,108	0	2,175,108
Instructional Support	1,324,773	0	1,324,773
General Administration	437,193	0	437,193
School Administration	1,860,281	0	1,860,281
Business Administration	404,352	0	404,352
Operation & Maintenance of Plant	3,067,935	0	3,067,935
Transportation	1,047,737	0	1,047,737
Support Services - Other	826,755	0	826,755
Community Services	29,939	0	29,939
Food Service	0	1,077,377	1,077,377
Athletics	0	581,649	581,649
Daycare	0	508,050	508,050
Capital Outlay	0	1,085,822	1,085,822
Total Expenditures	\$27,729,741	\$3,252,898	\$30,982,639
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	\$675,445	(\$466,906)	\$208,539
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers from (to) Other Funds	(528,537)	528,537	0
Other Transfers	198,930	0	198,930
Total Other Financing Sources (Uses)	(\$329,607)	\$528,537	\$198,930
Net Change in Fund Balance	\$345,838	\$61,631	\$407,469
<u>FUND BALANCE - BEGINNING</u>	3,720,681	487,536	4,208,217
<u>FUND BALANCE - ENDING</u>	\$4,066,519	\$549,167	\$4,615,686

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Total net change in fund balances - governmental funds	\$407,469
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	311,563
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	457,811
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Change in accrued interest on long-term liabilities	1,248
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(Increase) in accrued compensated absences	<u>(690)</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u>\$1,177,401</u>
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KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	<u>Trust & Agency</u>	<u>Private Purpose Trusts</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$173,571	\$17,328	\$190,899
Investments	<u>0</u>	<u>37,424</u>	<u>37,424</u>
<u>TOTAL ASSETS</u>	\$173,571	\$54,752	\$228,323
<u>LIABILITIES</u>			
Due to Student Groups	<u>173,571</u>	<u>0</u>	<u>173,571</u>
<u>NET ASSETS - HELD IN TRUST FOR OTHERS</u>	<u>\$0</u>	<u>\$54,752</u>	<u>\$54,752</u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Private Purpose Trusts</u>
<u>REVENUE</u>	
Interest	\$4,348
<u>EXPENDITURES</u>	
Scholarship Awards	<u>7,000</u>
<u>CHANGE IN NET ASSETS</u>	(\$2,652)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>57,404</u>
<u>NET ASSETS - END OF YEAR</u>	<u><u>\$54,752</u></u>

See accompanying notes to the basic financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Kearsley Community Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains three school service funds: Food Service, Athletic and Daycare Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Sinking Fund

The Capital Projects Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan. Voters in the School District renewed \$1.3 mills originally levied in 1998 for another six years now expiring on December 31, 2009 and authorized \$2.0 mills in 2001 for six years expiring on December 31, 2007 to be used for school facility improvement. The Capital Projects Sinking Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the District for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2004, the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC).

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Undeposited Cash – At June 30, 2004, the School District had \$1,050 of petty cash on hand which is included as part of "cash and cash equivalents."

Deposits - The Board of Education authorized the following financial institutions for the deposit of the District's funds for the year ended June 30, 2004: Citizens Bank, Standard Federal Bank, Bank One, Fifth Third Bank, and MILAF. The Board also authorized the business office to invest funds with financial institutions that gave the maximum interest rate of return upon receipt of quotes.

The District's deposits are in accordance with statutory authority.

At June 30, 2004, the carrying amount of the School District's deposits was \$6,430,384 and the bank balance was \$6,701,547. \$206,556 of the bank balance was covered by federal depository insurance and \$6,494,991 was uninsured and uncollateralized.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

4) DEPOSITS AND INVESTMENTS (Continued)

Investments - The School District's investments are required to be categorized to give an indication of the level of risk assumed by the District at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent but not in the School District's name.

Investments, categorized by level of risk at June 30, 2004, are as follows:

<u>CATEGORY 2</u>	<u>FAIR VALUE</u>	<u>COST</u>
Burgtorf Memorial Scholarship Fund – IDEX Mutual Funds	\$ 37,424	\$ 37,327

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2004, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 4,595,459
Federal Grants	158,755
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 4,754,214</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2004, the School District had estimated claims of \$16,019 in conjunction with the program.

8) SHORT-TERM DEBT

The District borrowed \$3,500,000 at 1.03% interest per annum on August 20, 2003, from Citizens Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The note was repaid August 20, 2004.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$17,808,048	\$424,737	\$0	\$18,232,785
Land Improvements	809,262	331,959	0	1,141,221
Equipment and Furniture	1,287,670	187,489	0	1,475,159
Vehicles	2,129,135	46,486	0	2,175,621
Totals at Historical Cost	\$22,034,115	\$990,671	\$0	\$23,024,786
Less: Accumulated Depreciation				
Buildings and Improvements	(10,149,624)	(360,159)	0	(10,509,783)
Land Improvements	(132,360)	(39,800)	0	(172,160)
Equipment and Furniture	(833,780)	(101,784)	0	(935,564)
Vehicles	(1,389,375)	(177,365)	0	(1,566,740)
Total Accumulated Depreciation	(\$12,505,139)	(\$679,108)	\$0	(\$13,184,247)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	\$9,528,976	\$311,563	\$0	\$9,840,539

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 88,066
Support Services	185,286
Food Service	2,316
Athletics	17,057
Unallocated	386,383
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 679,108</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2004 were \$248,248.

11) LONG-TERM LIABILITIES

A) Durant Resolution Package Bonds

Kearsley Community Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$473,505 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2004 was \$302,506. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

11) LONG-TERM LIABILITIES (Continued)

B) Installment Contracts

The District entered into three installment purchase contracts on December 31, 2001 totaling \$1,742,359. These notes were used to pay off installment purchase contracts dated September 26, 2000. The original notes were used for District-wide improvements. The new notes require monthly interest and principal payments and bear interest at 3.3159%. The balance at June 30, 2004 was \$763,140.

C) Debt service requirements at June 30, 2004, were as follows:

	Installment Contracts	Bonds Payable	Interest	Total
June 30, 2005	\$223,225	\$0	\$21,933	\$245,158
June 30, 2006	539,915	22,919	17,267	580,101
June 30, 2007	0	24,005	9,240	33,245
June 30, 2008	0	110,670	46,241	156,911
June 30, 2009	0	26,352	6,900	33,252
June 30, 2010-2013	0	118,560	14,441	133,001
<u>TOTAL</u>	<u>\$763,140</u>	<u>\$302,506</u>	<u>\$116,022</u>	<u>\$1,181,668</u>

D) Changes in Long-Term Liabilities

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
Bonds Payable	\$302,506	\$0	\$0	\$302,506	\$0
Installment Contracts	1,220,951	0	457,811	763,140	223,225
Compensated Absences	181,678	690	0	182,368	N/A
<u>Total Governmental Activities</u>	<u>\$1,705,135</u>	<u>\$690</u>	<u>\$457,811</u>	<u>\$1,248,014</u>	<u>\$223,225</u>

The payment dates of sick days payable are undeterminable.

The interest expenditures on long-term obligations for the year were \$37,346.

12) OPERATING LEASES

A) On July 1, 2002, the District leased equipment under certain operating lease agreements from Toshiba Business Solutions. The leases are all for 60 month terms and require monthly payments of \$6,527. The total cost of the leases is \$391,608.

B) The District entered into a operating lease with Pitney Bowes for postage machine on December 12, 2002. The lease payment is \$227 per month for a period of five years.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

12) OPERATING LEASES (Continued)

Future minimum payments are as follows:

<u>JUNE 30</u>	<u>AMOUNT</u>
2005	\$ 81,046
2006	81,046
2007	81,045
2008	1,589
<u>TOTALS</u>	<u>\$ 244,726</u>

13) DEFERRED REVENUE

On September 17, 2001, the District entered into an agreement to lease a 10,000 square foot parcel of land to Nextel Communications for the purpose of erecting a communications tower. The agreement was for a 60 month term and calls for a one time only payment of \$64,500. The current year portion of this payment is \$12,900 and is recognized in other local revenues. Future year revenue recognition will be as follows:

<u>JUNE 30</u>	<u>AMOUNT</u>
2005	\$ 12,900
2006	12,900
2007	2,150
<u>TOTALS</u>	<u>\$ 27,950</u>

14) INTERFUND ACTIVITY

Interfund balances at June 30, 2004 consisted of the following:

DUE TO	DUE FROM		
	FOOD		
	SERVICE	ATHLETICS	
	<u>FUND</u>	<u>FUND</u>	<u>TOTAL</u>
General Fund	<u>\$4,878</u>	<u>\$4,833</u>	<u>\$9,711</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

15) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004, consisted of the following:

TRANSFERS TO	TRANSFERS FROM	
		GENERAL
		<u>FUND</u>
Athletics Fund		\$466,000
Capital Projects Fund		<u>62,537</u>
<u>TOTAL</u>		<u>\$528,537</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

15) INTERFUND TRANSFERS (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

16) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2003 through September 30, 2003 and 12.99 percent for the period October 1, 2003 through June 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2004, 2003 and 2002 were \$2,358,493, \$2,319,477 and \$2,160,661, respectively.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS pension plan discussed above.

17) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty, theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. The pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from significant adverse financial impact.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

18) GOVERNMENTAL REGULATION

Substantially all of the school district's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the school district expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the school district. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

19) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2004, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

20) SUBSEQUENT EVENTS

On August 20, 2004, the District borrowed \$3,200,000 at 1.57% per annum from Citizens Bank on a State Aid Anticipation Note. The note proceeds will be used to meet cash flow needs for the 2004-2005 fiscal year.

REQUIRED
SUPPLEMENTARY
INFORMATION

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
<u>REVENUES</u>				
Local Sources	\$2,000,640	\$2,049,478	\$2,126,929	\$77,451
State Sources	25,275,346	25,449,649	25,228,999	(220,650)
Federal Sources	483,452	1,272,080	1,049,258	(222,822)
Total Revenues	<u>\$27,759,438</u>	<u>\$28,771,207</u>	<u>\$28,405,186</u>	<u>(\$366,021)</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	16,040,739	16,917,715	16,555,668	362,047
Student Services	2,176,317	2,218,013	2,175,108	42,905
Instructional Support	1,382,065	1,408,867	1,324,773	84,094
General Administration	519,058	496,043	437,193	58,850
School Administration	1,887,120	1,905,953	1,860,281	45,672
Business Administration	487,303	488,887	404,352	84,535
Operation & Maintenance of Plant	3,145,227	3,110,372	3,067,935	42,437
Transportation	1,055,129	1,073,695	1,047,737	25,958
Support Services - Other	606,035	766,030	826,755	(60,725)
Community Services	39,983	44,385	29,939	14,446
Total Expenditures	<u>\$27,338,976</u>	<u>\$28,429,960</u>	<u>\$27,729,741</u>	<u>\$700,219</u>
Excess of Revenues Over Expenditures	<u>\$420,462</u>	<u>\$341,247</u>	<u>\$675,445</u>	<u>\$334,198</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers to Other Funds	<u>(253,446)</u>	<u>(341,247)</u>	<u>(329,607)</u>	<u>11,640</u>
Net Change in Fund Balance	<u>\$167,016</u>	<u>\$0</u>	<u>\$345,838</u>	<u>\$345,838</u>
<u>FUND BALANCE - BEGINNING</u>			<u>3,720,681</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$4,066,519</u>	

OTHER SUPPLEMENTAL
INFORMATION

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2004

	Special Revenue Fund	Capital Projects Sinking Fund	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$267,936	\$328,965	\$596,901
Accounts Receivable	6,795	0	6,795
Taxes Receivable	0	1,385	1,385
Due from Other Governmental Units	19,663	0	19,663
Due from Other Funds	9,711	0	9,711
Inventory	16,077	0	16,077
<u>TOTAL ASSETS</u>	<u>\$320,182</u>	<u>\$330,350</u>	<u>\$650,532</u>
<u>LIABILITIES</u>			
Accounts Payable	\$3,324	\$57,588	\$60,912
Salaries Payable	33,680	0	33,680
Accrued Expenses	6,773	0	6,773
Total Liabilities	\$43,777	\$57,588	\$101,365
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	16,077	0	16,077
Capital Projects	0	272,762	272,762
Unreserved:			
Undesignated, Reported In:			
Special Revenue Fund	260,328	0	260,328
Total Fund Balances	\$276,405	\$272,762	\$549,167
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$320,182</u>	<u>\$330,350</u>	<u>\$650,532</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue Fund	Capital Projects Sinking Fund	Total Other Governmental Funds
<u>REVENUES</u>			
Local Sources	\$1,247,664	\$1,112,843	\$2,360,507
State Sources	69,271	0	69,271
Federal Sources	356,214	0	356,214
Total Revenues	<u>\$1,673,149</u>	<u>\$1,112,843</u>	<u>\$2,785,992</u>
<u>OTHER FINANCING SOURCES</u>	<u>466,000</u>	<u>62,537</u>	<u>528,537</u>
Total Revenues & Other Financing Sources	<u>\$2,139,149</u>	<u>\$1,175,380</u>	<u>\$3,314,529</u>
<u>EXPENDITURES</u>			
Food Service	1,077,377	0	1,077,377
Athletics	581,649	0	581,649
Daycare	508,050	0	508,050
Capital Projects			
Building Improvements	0	590,665	590,665
Loan Payments	0	495,157	495,157
Total Expenditures	<u>\$2,167,076</u>	<u>\$1,085,822</u>	<u>\$3,252,898</u>
Net Change in Fund Balance	(\$27,927)	\$89,558	\$61,631
<u>NET ASSETS - BEGINNING</u>	<u>304,332</u>	<u>183,204</u>	<u>487,536</u>
<u>NET ASSETS - ENDING</u>	<u>\$276,405</u>	<u>\$272,762</u>	<u>\$549,167</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUND
AS OF JUNE 30, 2004

	Food Services Fund	Athletic Fund	Daycare Fund	Total
<u>ASSETS</u>				
Cash and Cash Equivalents	\$178,845	\$3,336	\$85,755	\$267,936
Accounts Receivable	5,091	0	1,704	6,795
Due from Other Governmental Units	19,663	0	0	19,663
Due from Other Funds	4,878	4,833	0	9,711
Inventory	16,077	0	0	16,077
<u>TOTAL ASSETS</u>	<u>\$224,554</u>	<u>\$8,169</u>	<u>\$87,459</u>	<u>\$320,182</u>
<u>LIABILITIES</u>				
Accounts Payable	\$863	\$1,655	\$806	\$3,324
Salaries Payable	10,649	4,410	18,621	33,680
Accrued Expenses	2,191	858	3,724	6,773
Total Liabilities	\$13,703	\$6,923	\$23,151	\$43,777
<u>FUND BALANCES</u>				
Fund Balance - Reserved for Inventory	16,077	0	0	16,077
Fund Balance - Unreserved and Undesignated	194,774	1,246	64,308	260,328
Total Fund Balance	\$210,851	\$1,246	\$64,308	\$276,405
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$224,554</u>	<u>\$8,169</u>	<u>\$87,459</u>	<u>\$320,182</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Food Services Fund	Athletic Fund	Daycare Fund	Total
<u>REVENUES</u>				
<u>Local Sources</u>				
Cafeteria Sales	\$558,632	\$0	\$0	\$558,632
Athletic Activities	0	99,341	0	99,341
Tuition	0	0	555,771	555,771
Other Local Revenues	23,574	10,346	0	33,920
Total Local Sources	<u>\$582,206</u>	<u>\$109,687</u>	<u>\$555,771</u>	<u>\$1,247,664</u>
<u>State Sources</u>				
State Reimbursements	69,271	0	0	69,271
<u>Federal Sources</u>				
Federal Reimbursements	356,214	0	0	356,214
Total Revenues	<u>\$1,007,691</u>	<u>\$109,687</u>	<u>\$555,771</u>	<u>\$1,673,149</u>
<u>OTHER FINANCING SOURCES</u>				
Transfers from General Fund	0	466,000	0	466,000
Total Revenues & Other Financing Sources	<u>\$1,007,691</u>	<u>\$575,687</u>	<u>\$555,771</u>	<u>\$2,139,149</u>
<u>EXPENDITURES</u>				
Salaries - Professional	48,819	93,810	185,006	327,635
Salaries - Non-Professional	297,819	256,409	156,545	710,773
Insurances	35,488	25,705	26,333	87,526
Fica, Retirement, Etc.	72,492	68,726	68,445	209,663
Other Benefits	3,978	1,108	2,240	7,326
Purchased Services	119,639	82,385	28,130	230,154
Supplies and Materials	481,147	18,004	40,648	539,799
Capital Outlay	13,474	22,468	0	35,942
Other	4,521	13,034	703	18,258
Total Expenditures	<u>\$1,077,377</u>	<u>\$581,649</u>	<u>\$508,050</u>	<u>\$2,167,076</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	<u>(\$69,686)</u>	<u>(\$5,962)</u>	<u>\$47,721</u>	<u>(\$27,927)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>280,537</u>	<u>7,208</u>	<u>16,587</u>	<u>304,332</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$210,851</u>	<u>\$1,246</u>	<u>\$64,308</u>	<u>\$276,405</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2004

REVENUES FROM
Local Sources

Current Taxes	\$1,548,770
Earnings on Investments and Deposits	26,679
Tuition	47,587
Rental of School Property	36,027
Medicaid	36,098
Other Local Revenues	431,768
Total Revenues from Local Sources	<u>\$2,126,929</u>

State Sources

State Aid - Membership - Sec. 20	23,909,907
At Risk	341,529
MI School Readiness	84,489
Special Education	662,413
Durant	47,350
Driver Education	28,224
Vocational Education	79,080
Grants from ISD	76,007
Total Revenues from State Sources	<u>\$25,228,999</u>

Federal Sources

Title I	345,108
Title I Carryover	3,882
Technology Literacy Challenge	11,263
Title V	3,222
Improving Teacher Quality	65,233
Other Grants from ISD	34,847
Special Education - Flowthrough	528,846
Preschool - Flowthrough	16,473
Medicaid	40,384
Total Revenues from Federal Sources	<u>\$1,049,258</u>
Total Revenues	<u>\$28,405,186</u>

OTHER FINANCING SOURCES

County Special Education Tax	<u>200,839</u>
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TOTAL REVENUES AND OTHER FINANCING SOURCES
\$28,606,025

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTION

Basic Programs

Buffey Elementary

Salaries - Professional	\$774,715
Salaries - Non-Professional	70,437
Insurances	161,430
Fica, Retirement, Etc.	177,051
Other Benefits	1,812
Purchased Services	10,515
Supplies and Materials	44,314
Capital Outlay	3,378
Other	1,784
Total Buffey Elementary	<u>\$1,245,436</u>

Dowdall Elementary

Salaries - Professional	997,010
Salaries - Non-Professional	39,927
Insurances	202,011
Fica, Retirement, Etc.	217,258
Other Benefits	3,320
Purchased Services	11,939
Supplies and Materials	51,038
Capital Outlay	24,417
Other	1,733
Total Dowdall Elementary	<u>\$1,548,653</u>

Fiedler Elementary

Salaries - Professional	944,184
Salaries - Non-Professional	36,291
Insurances	219,793
Fica, Retirement, Etc.	205,831
Other Benefits	544
Purchased Services	10,252
Supplies and Materials	42,971
Capital Outlay	23,446
Other	1,791
Total Fiedler Elementary	<u>\$1,485,103</u>

Weston School

Salaries - Professional	1,153,545
Salaries - Non-Professional	33,577
Insurances	227,629
Fica, Retirement, Etc.	248,747
Other Benefits	4,069
Purchased Services	11,379
Supplies and Materials	27,132
Capital Outlay	2,241
Other	1,558
Total Weston School	<u>\$1,709,877</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTION (Continued)Basic Programs (Continued)Middle School

Salaries - Professional	\$2,079,836
Salaries - Non-Professional	68,375
Insurances	380,801
Fica, Retirement, Etc.	448,753
Other Benefits	11,720
Purchased Services	22,435
Supplies and Materials	58,653
Capital Outlay	67,870
Other	7,274
Total Middle School	<u>\$3,145,717</u>

High School

Salaries - Professional	2,885,166
Salaries - Non-Professional	64,135
Insurances	502,245
Fica, Retirement, Etc.	615,112
Other Benefits	38,644
Purchased Services	70,517
Supplies and Materials	158,319
Capital Outlay	82,918
Other	15,058
Total High School	<u>\$4,432,114</u>

Preschool - Weston

Salaries - Professional	37,396
Salaries - Non-Professional	8,083
Insurances	27,308
Fica, Retirement, Etc.	9,387
Purchased Services	950
Supplies and Materials	8,655
Capital Outlay	5,311
Other	671
Total Preschool - Weston	<u>\$97,761</u>

Summer School - Paro

Salaries - Professional	34,650
Fica, Retirement, Etc.	7,152
Supplies and Materials	3,222
Total Summer School - Paro	<u>\$45,024</u>

Total Basic Programs	\$13,709,685
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KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTION (Continued)ADDED NEEDSSpecial Education

Salaries - Professional	\$755,368
Salaries - Non-Professional	309,788
Insurances	167,513
Fica, Retirement, Etc.	219,944
Other Benefits	5,583
Purchased Services	11,643
Supplies and Materials	65,214
Other	1,266
Total Special Education	<u>\$1,536,319</u>

Compensatory Education

Salaries - Professional	289,399
Salaries - Non-Professional	300,646
Insurances	72,752
Fica, Retirement, Etc.	137,285
Other Benefits	5,350
Purchased Services	1,347
Supplies and Materials	11,655
Total Compensatory Education	<u>\$818,434</u>

Vocational Education

Salaries - Professional	277,853
Salaries - Non-Professional	13,152
Insurances	46,289
Fica, Retirement, Etc.	64,560
Purchased Services	5,480
Supplies and Materials	18,098
Capital Outlay	64,939
Total Vocational Education	<u>\$490,371</u>

Total Added Needs	\$2,845,124
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Adult Education

Supplies and Materials	737
Other	122
Total Adult Education	<u>\$859</u>

<u>Total Instruction</u>	\$16,555,668
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KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICESSTUDENT SERVICES

Salaries - Professional	\$1,294,908
Salaries - Non-Professional	201,211
Insurances	252,754
Fica, Retirement, Etc.	305,998
Other Benefits	7,559
Purchased Services	97,426
Supplies and Materials	8,523
Capital Outlay	6,729
Total Student Services	<u>\$2,175,108</u>

INSTRUCTIONAL STAFF

Salaries - Professional	617,631
Salaries - Non-Professional	263,508
Insurances	149,533
Fica, Retirement, Etc.	181,253
Other Benefits	9,506
Purchased Services	68,625
Supplies and Materials	32,853
Other	1,864
Total Instructional Staff	<u>\$1,324,773</u>

GENERAL ADMINISTRATIONBoard of Education

Salaries - Professional	3,510
Purchased Services	34,613
Other	10,548
Total Board of Education	<u>\$48,671</u>

Executive Administration

Salaries - Professional	150,268
Salaries - Non-Professional	54,845
Insurances	26,388
Fica, Retirement, Etc.	39,389
Other Benefits	1,313
Purchased Services	68,767
Supplies and Materials	30,559
Capital Outlay	4,856
Other	12,137
Total Executive Administration	<u>\$388,522</u>

Total General Administration	\$437,193
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KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)SCHOOL ADMINISTRATION

Salaries - Professional	\$919,297
Salaries - Non-Professional	379,749
Insurances	182,632
Fica, Retirement, Etc.	268,640
Other Benefits	20,998
Purchased Services	41,731
Supplies and Materials	47,234
Total School Administration	<u>\$1,860,281</u>

BUSINESS OFFICE

Salaries - Professional	81,213
Salaries - Non-Professional	149,942
Insurances	48,700
Fica, Retirement, Etc.	47,430
Other Benefits	2,320
Purchased Services	22,488
Other	52,259
Total Business Office	<u>\$404,352</u>

OPERATION & MAINTENANCE OF PLANT

Salaries - Professional	112,559
Salaries - Non-Professional	1,077,205
Insurances	192,337
Fica, Retirement, Etc.	319,738
Other Benefits	4,871
Purchased Services	520,318
Supplies and Materials	798,410
Capital Outlay	40,298
Other	2,199
Total Operation and Maintenance of Plant	<u>\$3,067,935</u>

TRANSPORTATION

Salaries - Professional	69,577
Salaries - Non-Professional	498,931
Insurances	44,454
Fica, Retirement, Etc.	147,659
Other Benefits	207
Purchased Services	110,278
Supplies and Materials	172,496
Capital Outlay	324
Other	3,811
Total Transportation	<u>\$1,047,737</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)

OTHER SUPPORT SERVICES

Salaries - Professional	\$56,790
Salaries - Non-Professional	247,098
Insurances	42,980
Fica, Retirement, Etc.	62,179
Other Benefits	3,759
Purchased Services	140,264
Supplies and Materials	2,193
Capital Outlay	269,734
Other	1,758
Total Other Support Services	<u>\$826,755</u>

Total Support Services	\$11,144,134
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COMMUNITY SERVICES

Salaries - Non-Professional	19,957
Insurances	91
Fica, Retirement, Etc.	6,729
Purchased Services	1,800
Supplies and Materials	1,362
Total Community Services	<u>\$29,939</u>

Total Expenditures	\$27,729,741
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OTHER FINANCING USES

Prior Year Adjustments	1,909
Transfers to Other Funds	528,537
Total Other Financing Uses	<u>\$530,446</u>

TOTAL EXPENDITURES AND OTHER
FINANCING USES

<u>\$28,260,187</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2004

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DISBURSEMENTS	DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2003	RECEIPTS		JUNE 30, 2004	
Adm Office	\$2,023	\$34	\$151	\$1,906	
Admin-Flow Through	45	2,021	2,066	0	
Alcohol, Tobacco & Other Drugs	150	0	0	150	
AMS X-Team	119	1,063	885	297	
Armstrong Art	494	1,073	912	655	
Armstrong Band	98	1,982	1,619	461	
Armstrong Chess Club	0	540	500	40	
Armstrong Choir	7	0	0	7	
Armstrong Cluster #1	875	19,524	19,116	1,283	
Armstrong Cluster #2	129	9,743	9,365	507	
Armstrong Cluster #3	9,934	10,661	11,006	9,589	
Armstrong Cluster #4	195	4,559	4,440	314	
Armstrong Cluster #5	40	6,023	5,971	92	
Armstrong Cluster #6	0	4,130	4,245	(115)	
Armstrong Cluster #7	3,263	16,820	19,216	867	
Armstrong Cluster #8	2,352	20,991	21,878	1,465	
Armstrong Cross County	0	360	260	100	
Armstrong Drama Club	486	633	796	323	
Armstrong Family Living	2,334	1,832	2,228	1,938	
Armstrong Flow Through	336	7,833	5,936	2,233	
Armstrong Flower Fund	181	689	860	10	
Armstrong KATS	62	1,920	1,947	35	
Armstrong Language Arts	1,063	0	0	1,063	
Armstrong Office	3,450	3,604	4,582	2,472	
Armstrong Science Dept	2,621	3,838	5,535	924	
Armstrong Social Studies	1,467	9,930	10,670	727	
Armstrong Student Incentive	1,771	3,434	3,500	1,705	
Armstrong Student Senate	1,066	4,119	3,045	2,140	
Armstrong Yearbook	1,376	13,689	12,220	2,845	
Boy Athletics	828	934	786	976	
Boys Basketball Team	759	5,033	3,651	2,141	
Boys Track	0	2,490	1,092	1,398	
Buffey Beautification	29	1,882	1,335	576	
Buffey Computer Supp	102	0	90	12	
Buffey Field Trips	1,094	1,900	2,880	114	
Buffey Flower Fund	218	485	641	62	
Buffey Library	523	5,950	5,486	987	
Buffey Office	599	3,671	3,726	544	
Buffey Student Senate	779	1,050	595	1,234	
Burgtorf Office	17,901	29,500	27,110	20,291	
Cavin Councilor Memorial	250	0	0	250	
Cheerleading	88	200	287	1	
Chris Christensen Memor Bldg	29,220	47,131	79,665	(3,314)	
Class of 1986	60	0	60	0	
Class of 1989	381	0	381	0	

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2004

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS	RECEIPTS	DISBURSEMENTS	DUE TO (FROM) STUDENT GROUPS
	JULY 1, 2003			JUNE 30, 2004
Class of 1990	\$364	\$0	\$364	\$0
Class of 1992	209	0	209	0
Class of 1993	1,622	0	1,622	0
Class of 1995	164	0	164	0
Class of 1999	482	0	0	482
Class of 2002	185	0	0	185
Class of 2003	1,975	0	1,975	0
Class of 2004	4,822	17,949	19,317	3,454
Class of 2005	6,924	8,250	2,024	13,150
Class of 2006	(216)	1,348	700	432
Class of 2007	0	2,109	1,158	951
Cross Country	0	256	256	0
Davison C-A Co-Op Enrichment	56	1,087	755	388
Dowdall Office	1,204	7,383	8,378	209
Dowdall School Store	0	0	11	(11)
Dowdall Student Council	0	114	0	114
Fiedler Drama Club	101	0	0	101
Fiedler Office	564	5,376	6,728	(788)
Fiedler Read-a-Thon	2,351	1,063	1,970	1,444
Fiedler School Store	153	0	0	153
Girls Athletics	488	1,964	3,416	(964)
Girls Basketball Team	697	0	0	697
Hornet's Nest	22,870	63,142	60,402	25,610
HS Art	499	1,333	1,876	(44)
HS Auto Shop	455	7,150	6,233	1,372
HS Band	1,035	338	1,932	(559)
HS Broadcasting	183	0	0	183
HS Business Profession	295	0	0	295
HS Career Academy	65	0	0	65
HS Chess Club	2,131	1,436	1,666	1,901
HS Choir	3,344	10,942	11,910	2,376
HS Closeup DC Trip	1,979	0	0	1,979
HS Closeup PAC RIM	2	0	2	0
HS Drama	2,259	7,118	5,717	3,660
HS Football	0	8,957	9,472	(515)
HS French Club	548	960	1,452	56
HS Journalism	1,041	4,833	5,733	141
HS Jr. National Honor Society	234	1,080	600	714
HS Library	40	0	0	40
HS Literary Magazine	200	0	0	200
HS National Honor Society	175	5,225	5,466	(66)
HS Office Activity	1,079	12,615	11,243	2,451
HS Physical Ed Dept	2,333	1,036	2,246	1,123
HS SADD	647	3,404	3,815	236
HS Science	601	8,000	7,660	941

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2004

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS	RECEIPTS	DISBURSEMENTS	DUE TO (FROM) STUDENT GROUPS
	JULY 1, 2003			JUNE 30, 2004
HS Ski Club	\$130	\$0	\$0	\$130
HS Softball Team	2,285	4,437	6,863	(141)
HS Spanish Club	131	145	98	178
HS Student Senate	8,439	6,312	8,101	6,650
HS Technology	1,348	19,017	20,381	(16)
HS VICA	86	1	0	87
HS Yearbook	12,147	42,320	45,748	8,719
Intramural Sports	3,926	5,530	5,728	3,728
KATS Activity	507	0	0	507
Kearsley Christmas Charity	3,310	17,060	15,932	4,438
Kearsley Summer Baseball	462	0	0	462
Larry King Scholarship	4,866	134	5,000	0
Memorial Fund	2,104	0	0	2,104
Michael Lafia Scholarship	0	1,000	1,000	0
Miscellaneous Scholarships	500	1,000	1,000	500
Office Flowthrough	0	880	880	0
Paro Co-Op	2,649	8,258	7,789	3,118
Paro Office	4,499	1,881	3,563	2,817
Past Board Membership Association	1,256	90	0	1,346
Savings Interest	9,452	1,109	0	10,561
Special Services	2,614	847	1,888	1,573
Summer School Book Fair	2	0	0	2
Volleyball	0	4,759	3,683	1,076
Weston Office	2,128	8,985	8,874	2,239
Wrestling	506	2,853	1,327	2,032
<u>TOTAL</u>	<u>\$216,275</u>	<u>\$562,357</u>	<u>\$605,061</u>	<u>\$173,571</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

<u>BURGTORF SCHOLARSHIP FUND</u>		
<u>BALANCE - JULY 1, 2003</u>		\$39,215
<u>REVENUE</u>		
Interest		4,209
<u>EXPENDITURES</u>		
Scholarship Awards		<u>6,000</u>
<u>BALANCE - JUNE 30, 2004</u>		<u>\$37,424</u>
<u>KERBY SCHOLARSHIP FUND</u>		
<u>BALANCE - JULY 1, 2003</u>		\$18,189
<u>REVENUE</u>		
Interest		139
<u>EXPENDITURES</u>		
Scholarship Awards		<u>1,000</u>
<u>BALANCE - JUNE 30, 2004</u>		<u>\$17,328</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2004

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$473,505

1998 DURANT RESOLUTION PACKAGE BONDS

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2005	\$0	4.761353%	\$0	\$0
2006	22,919	4.761353%	10,332	33,251
2007	24,005	4.761353%	9,240	33,245
2008	110,670	4.761353%	46,241	156,911
2009	26,352	4.761353%	6,900	33,252
2010	27,606	4.761353%	5,645	33,251
2011	28,920	4.761353%	4,331	33,251
2012	30,296	4.761353%	2,954	33,250
2013	31,738	4.761353%	1,511	33,249
<u>TOTAL</u>	<u>\$302,506</u>		<u>\$87,154</u>	<u>\$389,660</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS - INSTALLMENT CONTRACTS
FOR THE YEAR ENDED JUNE 30, 2004

DATE OF ISSUE - December 31, 2001

Amount Authorized: \$741,334

LIGHTING RENOVATION CONTRACT

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
2004-2005	\$96,318	3.3159%	\$7,921	\$104,239
2005-2006	186,457	3.3159%	2,350	188,807
<u>TOTAL</u>	<u>\$282,775</u>		<u>\$10,271</u>	<u>\$293,046</u>

The contract is authorized and issued for the purpose of providing funds to be used to purchase light fixtures, switches, occupancy sensors, mechanical diffusers, ductwork, ceiling and tile grids and related appurtenances.

DATE OF ISSUE - December 31, 2001

Amount Authorized: \$538,192

WESTON ELEMENTARY MECHANICAL CONTRACT

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
2004-2005	\$72,122	3.3159%	\$3,641	\$75,763
2005-2006	70,553	3.3159%	805	71,358
<u>TOTAL</u>	<u>\$142,675</u>		<u>\$4,446</u>	<u>\$147,121</u>

The contract is authorized and issued for the purpose of providing funds to be used to purchase nine rooftop HVAC units, mechanical diffusers, ductwork and related appurtenances for Weston Elementary School.

DATE OF ISSUE - December 31, 2001

Amount Authorized: \$462,833

ENERGY MANAGEMENT SYSTEM

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
2004-2005	\$54,785	3.3159%	\$10,370	\$65,155
2005-2006	282,905	3.3159%	3,780	286,685
<u>TOTAL</u>	<u>\$337,690</u>		<u>\$14,150</u>	<u>\$351,840</u>

The contract is authorized and issued for the purpose of providing funds to be used for the purpose of an energy management system and related appurtenances to operate various mechanical components.

KEARSLEY COMMUNITY SCHOOLS

FLINT, MICHIGAN

FEDERAL AWARDS
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2004

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Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 24, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education of
Kearsley Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kearsley Community Schools, as of and for the year ended June 30, 2004, which collectively comprise the Kearsley Community Schools' basic financial statements and have issued our report thereon dated August 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Kearsley Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Kearsley Community Schools, in a separate letter dated August 24, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kearsley Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Kearsley Community Schools, in a separate letter dated August 24, 2004.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 24, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Education of
Kearsley Community Schools

Compliance

We have audited the compliance of Kearsley Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Kearsley Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kearsley Community Schools' management. Our responsibility is to express an opinion on Kearsley Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kearsley Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kearsley Community Schools' compliance with those requirements.

In our opinion, Kearsley Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2004-1.

Internal Control Over Compliance

The management of Kearsley Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kearsley Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Kearsley Community Schools
Page 2
August 24, 2004

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf P.C.

LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	APPROVED GRANT AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Michigan Department of Education:			
Title I Grants to Local Educational Agencies	84.010		
ESEA Title I - Regular (02-03)		31530-0203	\$433,199
ESEA Title I - C/O (01-02)		31530-0102	4,705
ESEA Title I - Regular (03-04)		41530-0304	390,140
Total ESEA Title I			<u>\$828,044</u>
Innovative Education Program Strategies	84.298		
Title V (03-04)		30250-0304	3,222
Title V (02-03)		20250-0203	3,442
Total Innovative Education Program Strategies			<u>\$6,664</u>
Technology Literacy Challenge	84.318		
Technology Literacy Challenge (03-04)		34290-0304	12,499
School Renovation IDEA & Tech Program	84.352		
Renovation (02-03)		22410-2B	91,506
Improving Teacher Quality	84.367		
Title IIA (03-04)		40520-0304	136,193
Title IIA (02-03)		30520-0203	125,342
Total Improving Teacher Quality			<u>\$261,535</u>
Total Passed Through Michigan Department of Education			<u>\$1,200,248</u>
Passed Through Genesee Intermediate School District:			
Special Education - Grants to States	84.027		
IDEA Flow Through (02-03)		30450-0203	395,097
IDEA Flow Through (03-04)		40450-0304	475,849
Transition Services (03-04)		40490-TS	1,558
Capacity Building		30490-CB	5,172
Total Special Education - Grants to States			<u>\$877,676</u>
Vocational Education - Basic Grants to States:	84.048		
Perkins Secondary Regional (03-04)		43520-401215	17,187
Special Education - Preschool Grants	84.173		
IDEA Preschool Incentive C/O (01-02)		30460	27,692
IDEA Preschool Incentive (03-04)		40460-0304	16,173
Total Special Education - Preschool Grants			<u>\$43,865</u>
Safe & Drug Free Learning	84.184L		
Safe & Drug Free Learning (03-04)		S184L020281-3	4,562
Safe & Drug Free Learning (02-03)		S18L020281	888
Total Safe and Drug Free Schools & Communities			<u>\$5,450</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2003	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS	CURRENT YEAR CASH RECEIPTS	ACCRUED (DEFERRED) REVENUE JUNE 30, 2004
\$67,671	\$409,445	\$23,754	\$0	\$91,425	\$0
4,705	4,705	0	0	4,705	0
0	0	325,236	0	321,737	3,499
\$72,376	\$414,150	\$348,990	\$0	\$417,867	\$3,499
0	0	3,222	0	0	3,222
3,442	3,442	0	0	3,442	0
\$3,442	\$3,442	\$3,222	\$0	\$3,442	\$3,222
0	0	11,263	0	11,067	196
56,182	91,506	0	0	56,182	0
0	0	65,233	0	57,014	8,219
32,916	125,342	0	0	32,916	0
\$32,916	\$125,342	\$65,233	\$0	\$89,930	\$8,219
\$164,916	\$634,440	\$428,708	\$0	\$578,488	\$15,136
342,100	342,100	52,997	0	395,097	0
0	0	475,849	0	347,840	128,009
0	0	1,558	0	1,558	0
0	0	0	5,172	5,172	0
\$342,100	\$342,100	\$530,404	\$5,172	\$749,667	\$128,009
0	0	17,187	0	17,187	0
27,392	27,392	300	0	27,692	0
0	0	16,173	0	12,903	3,270
\$27,392	\$27,392	\$16,473	\$0	\$40,595	\$3,270
0	0	4,562	0	4,562	0
0	0	888	0	888	0
\$0	\$0	\$5,450	\$0	\$5,450	\$0

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	APPROVED GRANT AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u> (Continued)			
Passed Through Genesee Intermediate School District (Continued):			
Safe & Drug Free Schools	84.186		
Safe & Drug Free Schools (03-04)		42860-0304	\$880
PEP - CM White Physical Fitness	84.215F		
PEP - CM White Physical Fitness (03-04)		Q215F031137	4,000
Total Passed Through Genesee Intermediate School District			<u>\$949,058</u>
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			\$2,149,306
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Michigan Department of Education:			
Food Distribution	10.550		
Entitlement Commodities		N/A	43,934
Bonus Commodities		N/A	4,531
Total Commodities			<u>\$48,465</u>
School Breakfast Program	10.553	N/A	43,409
National School Lunch Program	10.555	N/A	256,353
Special Milk Program for Children	10.556	N/A	<u>5,490</u>
<u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			\$353,717
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed Through Genesee Intermediate School District			
WIA Title I	17.259		
Year Round Youth Services (03-04)		007-K-01	600
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Genesee Intermediate School District			
Medical Assistance Program Title XIX	93.778		
Medicaid Outreach Claims		N/A	<u>40,384</u>
<u>TOTAL FEDERAL AWARDS</u>			<u>\$2,544,007</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2003	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS	CURRENT YEAR CASH RECEIPTS	ACCRUED (DEFERRED) REVENUE JUNE 30, 2004
\$0	\$0	\$880	\$0	\$880	\$0
0	0	4,000	0	4,000	0
<u>\$369,492</u>	<u>\$369,492</u>	<u>\$574,394</u>	<u>\$5,172</u>	<u>\$817,779</u>	<u>\$131,279</u>
\$534,408	\$1,003,932	\$1,003,102	\$5,172	\$1,396,267	\$146,415
0	0	34,092	0	34,092	0
0	0	4,531	0	4,531	0
<u>\$0</u>	<u>\$0</u>	<u>\$38,623</u>	<u>\$0</u>	<u>\$38,623</u>	<u>\$0</u>
2,028	0	45,203	0	45,436	1,795
10,287	0	266,672	0	266,640	10,319
236	0	5,716	0	5,726	226
<u>\$12,551</u>	<u>\$0</u>	<u>\$356,214</u>	<u>\$0</u>	<u>\$356,425</u>	<u>\$12,340</u>
0	0	600	0	600	0
0	0	40,384	0	40,384	0
<u>\$546,959</u>	<u>\$1,003,932</u>	<u>\$1,400,300</u>	<u>\$5,172</u>	<u>\$1,793,676</u>	<u>\$158,755</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL REVENUE RECOGNIZED FOR THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS

\$1,400,300

Add: Adjustment

5,172

TOTAL

\$1,405,472

FEDERAL REVENUE RECOGNIZED PER THE GENERAL
PURPOSE FINANCIAL STATEMENTS

General Fund

\$1,049,258

School Service Fund

356,214

TOTAL

\$1,405,472

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 7 of this report.
- 3) As of the date of completion of fieldwork, the Schedule of Transfers to Sub-Recipients from the Intermediate School Districts was not available. The amounts shown on the Schedule of Federal Financial Assistance as flow through from the Intermediate School Districts may not be conclusive.
- 4) An adjustment of \$5,172 was made to the Capacity Building Grant (CFDA 84.027) due to omission from prior year.

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
RECONCILIATION OF FORM R 7120 "GRANT SECTION AUDITOR'S REPORT"
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Current Payments Per the Grant Section Auditor's Report (Form R 7120)		\$924,850
<u>Less:</u> State Funded Grants		
Driver Education	(\$28,224)	
School Breakfast Program	(12,887)	
Total State Funded Programs		(41,111)
<u>Less:</u> Timing Differences		
School Breakfast and Lunch Program Revenue Received in Subsequent Year		12,551
<u>Add:</u> Grants Passed Through Genesee Intermediate School District:		
Special Education - State Grants (CFDA 84.027)	\$749,667	
Vocational Education (CFDA 84.048)	17,187	
Special Education - Preschool Grants (CFDA 84.173)	40,595	
Safe & Drug Free Learning (CFDA 84.184L)	5,450	
Safe & Drug Free Schools & Communities (CFDA 84.186)	880	
PEP - CM White Physical Fitness (CFDA 84.215F)	4,000	
Year Around Youth (CFDA 17.259)	600	
Medical Assistance Program Title XIX (CFDA 93.778)	40,384	
Total Passed Through Genesee Intermediate School District		858,763
Entitlement and Bonus Commodities (CFDA 10.550)		38,623
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF</u> <u>EXPENDITURES OF FEDERAL AWARDS</u>		<u>\$1,793,676</u>

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☒ Yes ☐ No

Identification of major programs:

CFDA Number(s)
84.027//84.173

Name of Federal Program or Cluster
Special Education Cluster

Dollar threshold use to distinguish between type A and type B programs:

\$ 300,000.00

Qualified as low-risk auditee?

☒ Yes ☐ No

KEARSLEY COMMUNITY SCHOOLS - FLINT, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

2004-1) Special Education Cluster (CFDA #84.027//84.173)

<u>Specific Requirement:</u>	Allowable Cost/Cost Principles.
<u>Condition:</u>	The District did not complete the time certifications required for employees working solely on a single Federal award or cost objective.
<u>Criteria:</u>	The cost principles of OMB Circular A-87 require, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee".
<u>Effect of Condition:</u>	Salaries and wages charged to the program could be disallowed.
<u>Cause of Condition:</u>	The cause of the condition was the lack of knowledge of the requirement of the Circular in regards to the need for time certification.
<u>Recommendation:</u>	The District should develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.
<u>Management Response:</u>	The District will develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.
<u>Questioned Cost:</u>	None.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no prior year findings.



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 24, 2004

To the Board of Education of
Kearsley Community Schools

In planning and performing our audit of the general purpose financial statements of Kearsley Community Schools for the year ended June 30, 2004 we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. We noted no matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Kearsley Community Schools' ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. The following are informational items that will affect the District in the future:

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2004, Kearsley Community Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

2. Trust and Agency Accounts

A) At June 30, 2004, several of the Activity Accounts had deficit balances. Activity accounts are only permitted to expend the fund they have taken in. They are not allowed to borrow from other activities thus creating a deficit balance.

B) We suggest segregating miscellaneous scholarships into a separate bank account.

3. Time Certifications

The cost principles of OMB Circular A-87 require, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee".

The District should develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.

FUTURE ISSUES

1. Chart of Accounts

As you may be aware of, the Center for Educational Performance and Information (CEPI) has implemented a new upload application/database for financial reporting for districts. This new application/database is called the Financial Information Database (FID). For the fiscal year 2003 – 2004 you will be required to submit your financial data via the FID. The EDN/Form B submission process has been eliminated and is no longer available. The due date for the 2003 – 2004 FID submission is November 15, 2004.



Kearsley Community Schools

Page 2

August 24, 2004

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Kearsley Community Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lewis & Knopf P.C.

LEWIS & KNOPE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS